



Montana Department of  
**REVENUE**

Compliance, Valuation & Resolution  
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TO: Oil and Natural Gas Operators

FROM: Montana Department of Revenue

DATE: January 1, 1999

RE: Montana Oil/Gas Tax Filings - Responsibility of Operator  
*Effective for production occurring on or after January 1, 1999 to December 31, 1999.*

### **What has changed?**

The 1999 Legislature changed how oil and natural gas producers will pay taxes in Montana. House Bills 658 and 661 addressed new stripper categories for oil and Senate Bill 530 (temporary section) created two new production classifications. The bills are located on the State of Montana website <http://www.state.mt.us> under 1999 Legislative Session. This memo describes the new filing requirements, tax rates and tax forms.

The amended oil and gas production tax is codified in Montana Code Annotated (MCA) Title 15, Chapter 36.

### **HB 658 effective 7-1-99 to 12-31-99**

1. Designates a category called **stripper well exemption**. It is for a stripper well that **produces an average of 3 bbls or less per day**. A new tax rate of .8% for working interest and 15.10% for non-working interest applies.
2. Specifies a calendar year qualification that is usually calculated with the 1st quarter return each year. Since this is a mid-year change, **a new stripper calculation form will need to be filed** with the 3<sup>rd</sup> quarter 1999 tax return in order to qualify. Use the 1998 production in the stripper calculation.
3. Allows wells that qualify under this category, to **report all production** at the lower rate on the OSTR-X form for the 3<sup>rd</sup> and 4<sup>th</sup> quarters 1999, **even if it exceeds the 3 barrel average**.

### **HB 661 effective 7-1-99 to 12-31-99**

1. Changes the **stripper** classification from less than 10 bbls/day average production to **less than 15 bbls/day**. This is a calendar year qualification, which is usually completed and sent with the 1st quarter return. Since this is a mid-year change, **a new stripper calculation form will need to be filed** with the 3<sup>rd</sup> quarter 1999 tax return in order to qualify. Use the 1998 production in the stripper calculation.

2. Creates **new** taxing categories for stripper oil: **first 0-10 bbls** are taxed at 5.8% for working interest and 15.10% for non-working interest; **all over 10 bbls** is taxed at 9.30% for working interest and 15.10% for non-working interest.
3. Replaces the old 3 barrel stripper incentive (not to be confused with the new “stripper well exemption” mentioned above).

### **SB530 temp effective 1-1-99 to 12-31-99**

1. **Creates a post-1999 classification for newly completed vertical oil and gas wells.** The **incentive** period is **12 months** instead of 24 months. Oil and gas are both taxed at .80% for working interest and 15.10% for non-working interests for the first 12 months of qualifying production. After 12 months, the rates change to 9.30% working interest and 15.10% for non-working interest.
2. **Designates a horizontally completed classification for gas wells.** These are also taxed at .80% for working interest and 15.10% for non-working interests for the first 18 months of qualifying production. After 18 months, the rates are increased to 9.30% for working interest and 15.10% for non-working interest.
3. **Allows horizontally** drilled oil wells **completed after 1-1-99 only an 18 month incentive period** at a rate of .80% working interest and 15.10% non-working interest. After 18 months, the working interest rate increases to 9.30%.
4. Increases the **non-working interest rates to 15.10%** for **secondary recovery, tertiary and horizontally re-completed** oil wells, initiated **after 1-1-99**.
5. Sets a **working interest rate of 9.30%** and a **non-working interest rate of 15.10%** for horizontally re-completed wells **drilled after 1-1-99**, in the **over 18 month** classification.

As you may have noticed, the above changes are effective only until December 31, 1999. Senate Bill 530 also has a permanent section, effective January 1, 2000, that consolidates production types and tax rates. This consolidation is a major adjustment to the current tax reporting structure. These changes will be discussed at a later date so as not to cause confusion in the filing of the tax returns for the current quarters.

### **Tax and Schedules**

#### **GAS FORMS (effective 7-1-99 to 12-31-99):**

\*Identifies a new or modified tax schedule

- \*Form COG1: Cover form for tax calculations
- Form NG1: Regular or stripper wells drilled before July 1, 1985
- Form NG2: Regular or stripper wells drilled on or after July 1, 1985 but before January 1, 1999, unless it qualifies for the NG-NEW
- Form NG-NEW: Wells drilled on or after March 31, 1995 but before January 1, 1999, for the first 24 months of production
- \*Form NG-NEW99: Wells drilled on or after January 1, 1999
- \*Form ENH-HZGAS: Horizontal gas wells drilled on or after January 1, 1999
- Form STRCALC: Calculation form for stripper qualification
- Form COG-ROY: Schedule of royalty interest

#### **OIL FORMS (effective 7-1-99 to 12-31-99):**

\*Identifies a new or modified tax schedule

\*Form COG1: Cover form for tax calculations

### PRIMARY PRODUCTION

Form OPRE: Regular production wells drilled before July 1, 1985  
\*Form OS-PRE: Stripper production wells (producing less than 15 bbls per day) drilled before July 1, 1985  
\*Form OSTR-X: Stripper exemption wells averaging production of 3 barrels or less per day  
Form O-NEW: New wells drilled on or after March 31, 1995 but before January 1, 1999, for the first 24 months of production  
\*Form O-NEW99: New wells drilled on or after January 1, 1999  
Form O-POST: Regular production wells drilled on or after July 1, 1985, but before January 1, 1999  
\*Form OS-POST: Stripper production wells (producing less than 15 bbls per day) drilled on or after July 1, 1985, but before January 1, 1999

### HORIZONTAL PRODUCTION

Form ENH-HZ: Horizontally completed wells drilled after December 31, 1993, but before January 1, 1999 (previously was form ENH-HOR)  
\*Form ENH-HZ99: Horizontally completed wells drilled on or after January 1, 1999

### ENHANCED RECOVERY PROJECTS

Form ENH-PRE: Incremental production from enhanced recovery wells drilled before July 1, 1985  
Form ENH-POST: Incremental production from enhanced recovery wells drilled after July 1, 1985, but before January 1, 1999  
\*Form ENH-POST99: Incremental production from enhanced recovery wells drilled on or after January 1, 1999

### OTHER

Form STRCALC: Calculation form for stripper qualification  
Form COG-ROY: Schedule of royalty interest

Copies of the tax return and schedules, along with instructions for filing the new tax return, have been included with this memo. Please review them to determine your specific filing requirement changes. Disc filing is still available. Please contact our office for a copy of the template.

### **Filing and payment**

A production tax return and its accompanying payment is due 60 days after the end of each calendar quarter. All tax payments are to be made to the Department of Revenue. The first filing under these new tax laws affects 3<sup>rd</sup> quarter 1999 production and is due November 30, 1999.

The Department will be holding meetings in September to answer questions you may have about how to file properly. These are scheduled as follows:

- |                 |                    |                |   |
|-----------------|--------------------|----------------|---|
| 1. Shelby, MT   | September 14, 1999 | 1:00-3:00 p.m. | <b>Comfort Inn</b><br>50 Frontage Rd, 406-434-2212                |
| 2. Billings, MT | September 16, 1999 | 1:00-3:00 p.m. | <b>Grand Montana Holiday Inn</b><br>5500 Midland Rd, 406-248-7701 |

We encourage you to attend one of the scheduled meetings if possible. If you have any questions, please contact our department at 406-444-6900.